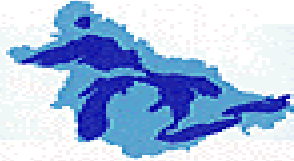


Binational Toxics Strategy

Environmental Insurance and Impacts of PCBs on Insurance Rates

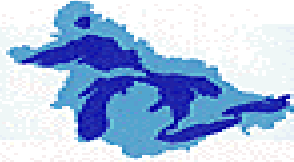
Scott Tajak
Senior Underwriter
ALG Environmental
Chicago

November 30, 2004



Who is AIG Environmental?

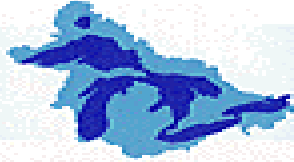
AIG Environmental is the Number 1 environmental insurance company in the world. We will be celebrating our 25th year in January. We are the only environmental insurance company with an AAA financial rating.



What Environmental Insurance is Available in the Marketplace for Industrial Sites?

The environmental insurance industry offers two styles of environmental policies for industrial sites (also known as Pollution Legal Liability policies):

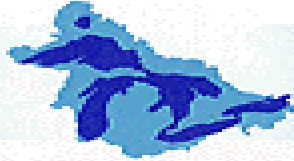
- Menu-style policies where the Insured can select only those coverages it wishes to have coverage for.
- Inclusive-style policies that act similar to General Liability Policy and include all available coverages.



What coverages are available?

Most environmental policies can provide the following coverages:

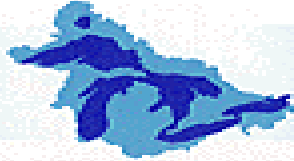
- First- and Third-party Claims for On-site and Off-site Clean-up Costs for Pre-existing and New Pollution Conditions
- Third-party Claims for On-site and Off-site Bodily Injury and Property Damage from Pre-existing and New Pollution Conditions
- Pollution Conditions From Transported Cargo



What coverages are available?

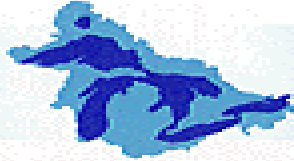
(continued)

- Third-party Claims for Bodily Injury, Property Damage and Clean-up Costs For On-site Pollution Conditions at Non-owned Locations (Disposal Sites)
- Third-party Claims for Bodily Injury, Property Damage and Clean-up Costs for Off-site Pollution Conditions at Non-owned Locations (Disposal Sites)
- Business Interruption
- Legal Expense & Defense



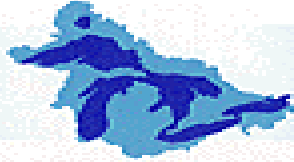
Features of Recipe-Style Policies

- An Insured can select only those coverages it wants coverage for
- Works better in a Mergers & Acquisitions situation where certain contractual environmental obligations may require select coverage needs
- Fixed sites require scheduling of facility addresses by endorsement
- Legal defense of claims is provided
- Typically purchased by large firms with revenues > \$400 Million that know environmental risk and know what they want
- Typically have a lot of manuscript endorsements to fit the Insured's needs



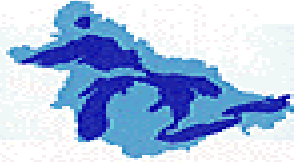
Features of Inclusive-Style Policies

- An Insured is covered for On-site Clean-up of Pollution Conditions via first-party discovery
- Third-party Bodily Injury, Property Damage, and Off-site Clean-up Costs of Pollution Conditions coverages are all listed under one coverage option
- Any coverages that the Insured does not want coverage for require an exclusionary endorsement
- Fixed sites do not require scheduling; rather, all sites owned, leased, rented, or operated at time of policy binding will be deemed covered
- Typically purchased by firms with revenues <\$400 million that want complete coverage because they are uncertain about environmental risk and would rather have all encompassing coverage



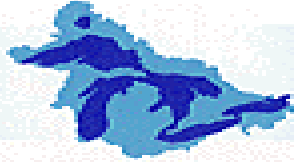
Unknown vs. Known Pollution Conditions

- Site-specific environmental insurance policies mainly cover unknown pollution condition exposures. Known pollution conditions are usually excluded on these policies (eg. contaminated soil)
- Known pollution conditions coverage can be covered under other environmental insurance policies on a cost overrun basis (eg. Clean-Up Cost Cap policies).
- This presentation is not about CCC policies.



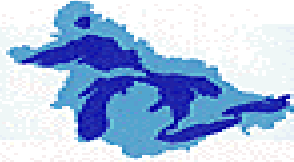
How Are Insurance Premiums Determined?

- Actuarial studies based on loss runs
- The annual average cost of administration to generate the policy
- Engineering review costs
- A site-specific environmental rating for each property



Typical Rating Categories

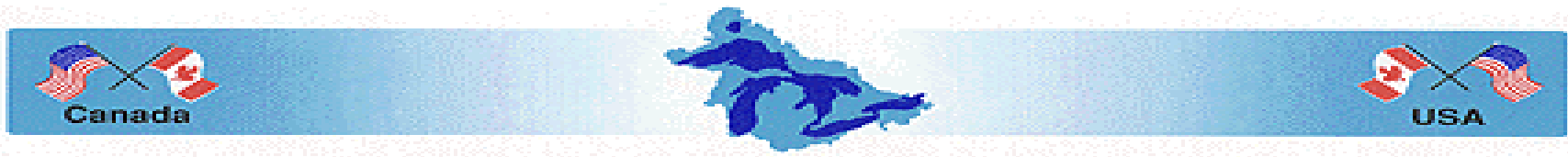
- Current and historical land use
- Surrounding environment (closeness to population, schools, hospitals, rivers, creeks, lakes, water supplies)
- Operations
- Air emission exposures
- Raw material inventory and exposures
- Asbestos, silicosis, and PCB exposures and their management



Typical Rating Categories

(continued)

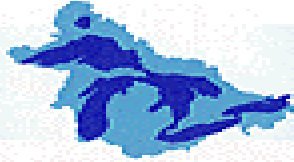
- USTs and ASTs
- Containment of tanks, raw material, finished product, and waste storage areas (landfills, lagoons, sludge beds, 90-day storage, etc.)
- Types and quantities of wastes generated
- Stormwater runoff exposures
- Wastewater exposures
- Groundwater and surface water contamination potential



Typical Rating Categories

(continued)

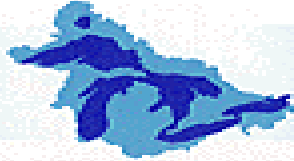
- Sediment and soil contamination potential
- Natural resource damage potential
- Mold exposures
- Regulatory status and compliance history
- Release history (air release, spills, fire, etc.)



Underwriting and Engineering Review

Before completing an environmental rating, the underwriters and their engineers perform a complete review of the exposure by reviewing the following (when applicable):

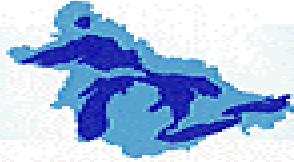
- Environmental Site Assessment Reports (Phase I & II)
- Remediation Reports
- UST Removals and Closure Reports
- Spill Reports
- Publicly available environmental data such as EPA databases (Envirofacts, Echo), OSHA, DOT, National Defense Fund, Right To Know database, and state UST and contaminated site listings



Underwriting and Engineering Review

(continued)

- SPCC Plans
- Contingency Plans
- Asbestos O&M Plans
- PCB O&M Plans
- Environmental management structure and inspection protocols
- Environmental phone surveys may be performed reviewing all the rating categories



Does the Insurance Industry Consider Use of Equipment Containing PCBs in its Coverage or Premiums?

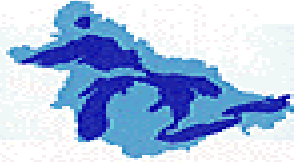
The environmental insurance industry does consider use of PCBs in its rating for premium.



Rating Categories Effected by PCB Use

Typically, use of PCBs will affect the rating under the following categories:

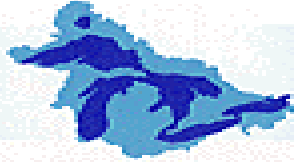
- Air emission exposures
- PCB exposures and their management
- Containment of tanks and waste storage areas (inc. landfills, lagoons, sludge beds, 90-day storage, etc.)



Rating Categories Effected by PCB Use

(continued)

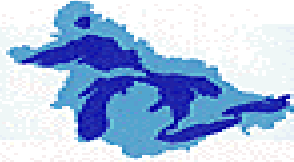
- Stormwater runoff exposures
- Wastewater exposures
- Groundwater and surface water contamination potential
- Sediment and soil contamination potential
- Natural resource damage potential



What Percentage of the Premium is Associated with PCB Exposure?

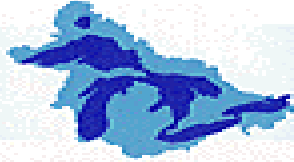
It varies. For example:

- Industrial sites that may have a small quantity of PCBs in electrical or hydraulic equipment but have a large quantity of other hazardous raw materials or finished chemical product may have a negligible premium increase for PCB exposure.
- Industrial sites with large electrical transformers or transformer repair operations with operations that do not involve many other hazardous materials or chemicals may have a high premium increase for the PCB exposure.



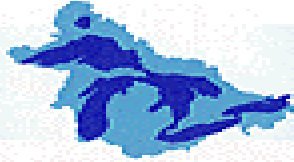
How Is PCB Equipment Covered?

- If all coverages are purchased, environmental insurance would typically cover the entire property scheduled.
- In this case, environmental releases not previously known before policy binding from all aboveground storage tanks, containers, process tanks, pipelines, and other fixtures containing PCBs on a scheduled property would therefore be covered.
- Typically environmental insurance carriers do not schedule individual pieces of equipment, except for USTs, which are required to have their own policies.



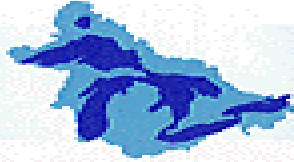
Release and Remediation Risks from PCBs vs. Non-flammable Properties

- Environmental insurance underwriters typically concentrate more on spill, release, and fire histories and PCB remediation activities.
- Environmental insurance underwriters concentrate less on risks from the flammability of the on-site PCBs.



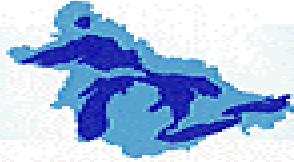
What Impact Would Removing PCBs and or PCB-Containing Equipment Have on Insurance Premiums or Coverage?

- It would remove the risk of future exposure of PCBs, which may result in a lowered environmental premium rating at the next policy renewal.
- A pollution and/or NRD exclusion for any known PCB Pollution Conditions may be removed (if contaminated environmental media was removed at time of equipment removal).
- An insurance carrier may offer re-opener coverage for the PCB cleanup if a NFA is granted by a state or EPA.



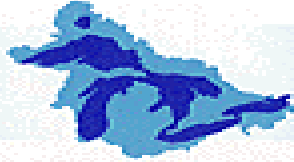
What Can Industries Do to Reduce Environmental Insurance Premiums and Increase Coverages for PCBs?

- Better disclosure of PCB containing equipment descriptions and the engineering controls in place.
- A PCB Operations & Maintenance Plan and Training Program
- An inventory of any releases from PCBs in soil, groundwater, air, surfacewater and sediments and their remedial plans or remedial completion reports.



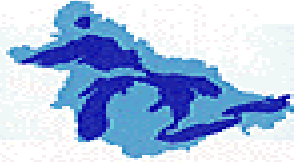
New Incentive to Rectify PCB Issues “Environmental Liability & Disclosure”

- Environmental groups, investors, and GAO are applying unprecedented pressure on the Security Exchange Commission (SEC) calling for tighter regulations and standards concerning the estimation, disclosure and reporting of environmental liabilities.
- A White Paper done by GAO criticizes SEC’s handling of environmental disclosure. GAO urged SEC to work with US EPA and utilize US EPA’s environmental databases and files and compare notes --- SEC WILL BE LOOKING TO MAKE AN EXAMPLE OF SOME FIRM SOON!!!!.



Non-Disclosure / Under-Disclosure: Factors and Consequences

- Total corporate environmental expenses, including hidden costs, are estimated to be in the hundreds of billions of dollars by A.M. Best Actuarial reporting services per Environmental News, 12/1/98
- 74% of companies failed to meet SEC disclosure requirements regarding env. liabilities that exceed \$100,000 per The Rose Foundation for Communities & the Environment, 2002
- A major US energy company had a non-cash cost of \$48.9 million for the remediation of former plant sites. Sr. Management could not sign off on that quarter's results knowing that there was this further writedown per Bloomberg, 8/2/02.



Contact Information

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